



May 19, 2015

Testimony in Support of HB 2435

Mr. Chairman and members of the Committee:

On behalf of Americans for Prosperity, thank you for this opportunity to voice our support of HB 2435.

Americans for Prosperity does not support the taxation of business inputs, and would strongly support a more pro-growth policy designed to reduce or eliminate taxation of the materials that go into construction projects. However, under our existing law, Kansas construction contractors must pay sales tax on materials used in construction projects. Contractors are viewed as the final consumers of building materials, before they become part of the real property.

This requirement does not apply if the final customer has a statutory sales tax exception that flows through to the construction contractor. HB 2435 eliminates one of the most common exemptions; the exemption for Kansas governmental agencies and local units of government.

Kansas is one of only fifteen states, plus the District of Columbiaⁱ that provides a broad sales tax exemption pass through for the purchase of construction materials used building projects for state agencies and local governments.

Four statesⁱⁱ allow contractors to purchase materials as a purchasing agent under specific agreements. Twenty three statesⁱⁱⁱ recognize the sales tax on construction materials as a tax on the contractor's purchases and do not provide an exception for sales tax.

Since the purpose of HB2435 is to provide additional state revenue, it is important to understand the source of the revenue. It is the case that contractors for government building projects will be required to pay sales tax for building materials and that much of that expense will be passed on to the final purchaser.

However, every business that benefits from Industrial Revenue Bonds and the associated property tax abatements and lower interest rates, also receives the benefit of the city or county

sales tax exemption on building materials. Many of the largest facility building and expansions in the state were completed with the advantage of Industrial Revenue Bonds, under the direction and approval authority of municipal and county governments. Yet the State has borne the brunt of lost revenue as a result of the construction materials sales tax exemption.

We have identified one area of concern regarding the changes that HB 2435 will make to existing statute. KSA 79-3606 (a) and (c) includes private hospitals, blood banks, and schools, along with the exemption for state and political subdivisions. We draw the Committee's attention to the option of creating a separate exemption for private hospitals and schools if the committee determines that it is in the public interest to maintain that particular exemption.

As the Committee weighs various options, Americans for Prosperity-Kansas supports bringing government agencies and local governments under the same rules as the private sector, and equalizes the costs of construction for businesses receiving Industrial Revenue Bonds, and those that do not.

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ⁱ Colorado, Connecticut, District of Columbia, Iowa, Kansas, Maine, Massachusetts, Missouri, New Jersey, New York, Ohio, Oklahoma, Rhode Island, Texas, Utah, and Vermont.

ⁱⁱ Alabama, Arizona (for federal contracts only), Minnesota, and Nebraska

ⁱⁱⁱ Arizona, Arkansas, California, Florida, Georgia, Idaho, Kentucky, Louisiana, Maryland, Michigan, Mississippi, Nevada, North Carolina, North Dakota, Pennsylvania, South Carolina, South Dakota, Tennessee, Virginia, Washington, West Virginia, Wisconsin, and Wyoming.